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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 000799

SIPDIS

DEPARTMENT FOR NEA/ARP (MCGOVERN)

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TAGS: EFIN ECON EINV PGOV AE
SUBJECT: ABU DHABI'S BOND BONANZA

ABU DHABI 00000799 001.2 OF 002

CLASSIFIED BY CDA DOUG GREENE FOR REASONS 1.4 (B AND D).

¶1. (C) Summary: Local and international liquidity shortages have forced several Abu Dhabi-based firms to the bond market in search of funding. Following the Emirate of Abu Dhabi's lead, several major parastatals (e.g., Mubadala, Aldar) entered the bond market in recent months, with varying degrees of success. While some firms wish they had access to the bond market, others are increasingly uncomfortable with ratings agency efforts to distinguish the wheat from the chaff. More broadly, and likely part of an effort to create a local bond market, the UAEG has drafted laws allowing the issuance of federal bonds and providing bond guarantees. End Summary.

ABU DHABI LEADS THE WAY

¶2. (C) Despite the broader economic downturn and portfolio losses, the Emirate of Abu Dhabi still enjoys a strong international financial reputation and successfully floated a USD 3 billion bond issuance in April. Its five-year USD 1.5 billion bond will pay 400 basis points over comparable US Treasuries, while the ten-year bond will pay 420 basis points above US Treasuries. Since April, secondary market rates on this bond have fallen, perhaps indicative of market confidence in Abu Dhabi's financial situation. The Chairman of the Abu Dhabi Department of Finance (and son of UAE President Sheikh Khalifa) Sheikh Mohammed bin Khalifa told the Ambassador that Abu Dhabi did not "need" the money, but was seeking a presence in the market.

INVESTMENT COMPANIES JUMP ON

¶3. (C) Abu Dhabi-owned investment firm Mubadala quickly followed with a five year USD 1.25 billion bond issuance that will pay 395 basis points above US Treasuries and USD 500 million in ten year bonds at 460 basis points over US Treasuries. Dolphin Energy, which is partially owned by Mubadala, entered the bond market in July. Dolphin floated a USD 1.25 billion ten-year bond priced at 337.5 basis points above US Treasuries to complement more than USD 3 billion of commercial refinancing. The Abu Dhabi-owned International Petroleum Investment Company (IPIC) also secured a syndicated USD 5 billion one year loan in July to fund its expansion activities, reportedly including the purchase of Canada's NOVA Chemicals.

"PRIVATE" FIRMS TAG ALONG

¶4. (C) In May, partially state-owned developer Aldar Properties issued a USD 1.25 billion unsecured bond. The five-year bond will pay 8.75 percent and received an A- senior unsecured debt rating from Standard and Poor's. Aldar has $70 billion in planned projects, including the $45 billion development of Yas Island, which will host a November 2009 Formula One race. However, the company has few properties currently earning income, and has delayed many of its

residential projects given the weak real estate market. Aldar Director of Planning and Infrastructure Talal Al Dhiyebi told EconOff on May 26 that the company had turned to the bond market because local bank rates for unsecured debt exceeded 10 percent. Initially, bond subscribers sought similar rates, leaving the firm worried about how to finance continued development. Al Dhiyebi said it wouldn't be easy to make bond payments, but Aldar had little choice.

RATINGS AGENCIES FEEL THE HEAT

¶5. (C) The demand for financing has upped the pressure on international ratings agencies. In early July, Abu Dhabi owned TAQA (Abu Dhabi National Energy Company) severed ties with Standard and Poors (S&P) due to the latter's revision of its rating methodologies for government-related entities in late June. TAQA CEO Peter Barker-Homek even went so far as to suggest that a regional credit rating company was needed in the Gulf. Separately, Standard and Poors reported that the Government of Dubai broke off communication with the agency after S&P put several Dubai Inc. firms on credit watch in the spring.

GOVERNMENT ROLE

¶6. (SBU) In the wake of the global downturn and tight liquidity, many have opined that a regional debt market is needed. Dubai International Financial Center Chief Economist Dr. Nasser Saidi has stressed the importance of establishing a regional debt market given the local impact of the global slowdown and the region's significant capital exports. While the DIFC has a USD debt market, many believe a local currency debt market is needed.

¶7. (SBU) The federal government appears to agree and has drafted legislation to allow the Ministry of Finance to guarantee bonds

issued by local banks, upon application. The Ministry has also drafted legislation allowing the federal government to issue bonds for the first time. According to press coverage, the federal government can issue bonds up to 45 percent of GDP or AED 300 billion (USD 81.7b), whichever is lower. Individual emirates may borrow as much as 15 percent of GDP.

COMMENT

¶8. (C) Even as it was buying USD 10 billion of Dubai bonds (under the guise of the Central Bank), Abu Dhabi Emirate has been weighing its own commercial financing options. While there is no apparent shortage of cash, officials appear to be leveraging the Emirate's name to benefit its pocketbook - perhaps in part to avoid cashing out investments at a loss. Turning to the bond market appears to be another example of Abu Dhabi's interests in public-private partnerships. End Comment.
GREENE